Alternatives to Payday Loans: Employer-Based Small Dollar Loans

Ginger McNally, OFN; Tanya Ladha, CFSI; Jeff Smith, NorthCountry FCU; Nick Mitchell-Bennett, Rio Grande Valley Multibank Corp; David Reiling, Sunrise Banks

- Welcome
- Session Highlights
  - EBSDL Knowledge Network
  - Employer Business Case
  - Successful Models of Partnership and Collaboration
  - Roundtable discussion
Employer-Based Small Dollar Loans Knowledge Network

- Knowledge Network
  - Prudential support for responsible consumer finance
  - Nine CDFIs offering products + 2 partner experts
  - Commitment to expansion, partnership, replication
Employer-Based Small Dollar Loans Knowledge Network

- Participating CDFIs
  - Brazos Valley CDC
  - Citizen Potawatomi CDC
  - North Country Federal Credit Union
  - Nusenda Federal Credit Union
  - Rio Grande Multibank Corporation
  - Southern Bancorp
  - Spring Bank
  - Sunrise Banks
  - Veridian Credit Union

- Partner Experts
  - Center for Financial Services Innovation (CFSI)
  - National Federation of Community Development Credit Unions

Presenters

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Presenters

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Financial Health

Financial health comes about when your daily systems help you build resilience and pursue opportunities.

Resilience  Opportunity  Day-to-day

Financial Health In America

57% Not Healthy  43% Healthy

138 million people are struggling financially
68 million people are underbanked

Source: Understanding and Improving Consumer Financial Health in America, CFSI, 2015
Loan Uses

Top 3 Uses of Loan Funds:

- Utility bills (36%)
- General living expenses (34%)
- Rent (18%)

“A Complex Portrait: An Examination of Small-Dollar Credit Consumers,” CFSI, 2012

Financial Health Challenges

92% of SDC users are struggling financially

- 75% of SDC users juggle bills
- 66% of SDC users have less than $1,000 in liquid assets
- 49% of SDC users do not save

Consumer Financial Health Study, CFSI, 2015
Consumer Challenges

30% of American households say they could only make ends meet for three months or less if they were to experience a sudden drop in income.

27% of Americans report having less than $1,000 saved for retirement.

43% of Americans describe themselves as struggling to pay bills and credit payments.

Source: Understanding and Improving Consumer Financial Health in America, CFSI, 2015

Consumer Attitudes

25% Worry all the time about being able to meet monthly living expenses

30% Highly satisfied with present financial condition

45% Confident I can meet long-term goals for financial security

Source: Understanding and Improving Consumer Financial Health in America, CFSI, 2015
Reduced Employee Productivity

Financially stressed employees spend 20 hours per month distracted by personal financial issues.

Health and Welfare Issues

75-90% of all doctor visits are stress related and these problems are increasing employer costs.

Employee Turnover

40% of employee turnover is due to stress and some change jobs just to earn more short-term income.

HR Department Distractions

Financially stressed employees cause productivity issues to both themselves and others.


A 2010 Federal Reserve Study often cited by the National Financial Educators Council as well as other organizations place a spotlight on the problem financial stress causes in the workplace.

Employee financial stress causes a significant drop in productivity, costing employers $5,000 per year.

The expense of replacing employees lost due to negative impacts of stress.

Independent of the cost of turnover, there are hard costs associated with training a new employee.

Questions?

North Country
Your community credit union

Jeff Smith
Director of Credit Administration
Employer-Sponsored Income Advance Loan

- What is it?
- Why was it created?
- How it works?
- Memorandum of Understanding
- Who it benefits?
- Identifying the best partners

What is it?
- Employee benefit
- Immediate access to small emergency loans
Employer-Sponsored Income Advance Loan

- Why was it created?
  - Payday loan alternative
  - Credit union philosophy

- How does it work?
  - Nominal annual fee paid by the employer
  - Managed through the employer’s HR department
  - Fast emergency cash (no underwriting)
  - Automatic approval
  - Loan repaid through payroll withdrawal
Employer-Sponsored Income Advance Loan

- Memorandum of Understanding
  - Required length of employment
  - Loan maximums
  - Term maximums
  - Primary contacts
  - Setup costs

Who benefits?
- **Employees:** Receive access to affordable credit for emergency purposes
- **Employers:** Offering a meaningful and rare employee benefit
- **Financial Institutions:** Build relationships and community
Employer-Sponsored Income Advance Loan

Max. Term: 6 months
Interest Rate: 16.99% APR

Total Loans: $2,463,223

Number of loans

2016: 29 Employer Participants
4500 Total Eligible Employees

Total # Loans: 2,163
Employer-Sponsored Income Advance Loan

- What makes a good partnership?
  - Dedicated staff on both sides
  - Committed leadership
  - Program and product that is simple and easy to use

Questions?
Who is the Rio Grande Valley Multibank?

- RGVMB is a for-profit stockholder held CDFI started in 1994
- The CLC started in 2011 as a wholly owned subsidiary of the RGVMB
Who is the Rio Grande Valley Multibank?

- Three loan products
  - Mortgage Loans
  - Interim Const. Loans
  - Small dollar consumer loans

CLC Loan Product

- $1,000 Loan Maximum
  - Or up to half of borrower’s monthly gross pay
  - One Year Loan term
- 18% Interest (21.83% APR)
- $20 origination fee
- Relaxed underwriting
- No collateral
- No Prepayment Penalties
- Lenders Report to Credit Bureaus
- Repayments $23.38/week or $94/month
Online Loan Origination System

- Proprietary Online Software (KENN System)
  - Online Application (open 24 hours)
  - Employer Portal (verify employment, payment)
  - Local Lender Administrative Portal
  - Administrative Portal
    - loan servicing, fund transfer, payments

- Jobs and Processes Automated for Efficiency
Nationwide Expansion

To date, we have CLC partners in the following areas:

- Rio Grande Valley
- Laredo
- Houston
- Austin
- Dallas
- Waco
- Brazos Valley Council of Governments area
- Northeast Indiana
- West Central Indiana
- Baltimore, Maryland
What Have We Learned?

- Bifurcated Business Model
  - Loan Servicing & Funding
  - Sales & Lending
- Keep a Balanced Employer Portfolio
  - Stable employers to less stable employers
  - "Underwriting" the employer
- Proprietary Software System a Must
  - It does what ever we want
- Keep Growing & Adding Employers
  - This is a volume business
  - Keep up relationships with employers

Questions?
Placed-Based Products

- Deposit Accounts, including the Socially Responsible Deposit Fund (SRDF)
- Consumer Lending
- Commercial and Industrial Loans
- Small Business Administration Loans
- New Markets Tax Credit Loans
- Cash Management
People-Based Products

Prepaid
Sunrise drives to follow the Center for Financial Services Innovation (CFSI) Compliant Principles, which are inspirational guidelines for product quality, innovation, and performance in financial services.

TrueConnect
Sunrise's small-dollar loan product, TrueConnect, is now available to 2,500 individuals in the state of Minnesota.

Global Alliance for Banking on Values

Certified Corporation

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2016 OPPORTUNITY FINANCE NETWORK CONFERENCE

Mission

Innovation

Empower
Achievement
TRUECONNECT
For Life's Unexpected Moments

www.employeesolutions.com
Lessons Learned

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Questions?
Round Table Discussion

- Question One: What do you think is the biggest challenge to scaling a product like this?

Round Table Discussion

- Question Two: Who has been your most important partner to the success of your employer-based small dollar lending? How did you find and work with that partner?
Questions?

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